

Annual Report 2013

JPMorgan European Smaller Companies Trust plc

Annual Report & Accounts for the year ended 31st March 2013

COMPANY NUMBER - 2431143



J.P.Morgan
Asset Management

Features

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Objective

Capital growth from smaller European companies (excluding the United Kingdom)

Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom
- To manage liquidity and borrowings to increase potential returns to shareholders. The Board's current gearing policy is to be between 20% net cash and 20% geared
- To emphasise capital growth rather than income. Therefore shareholders should expect the dividend to vary from year to year
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts)

Risk

It should be noted that the Company invests in the shares of smaller companies, which tend to be more volatile than those of larger companies. The Company also employs gearing to generate greater returns. The Company's shares should therefore be regarded as carrying greater than average risk.

Benchmark

HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms

Capital Structure

At 31st March 2013, the Company's issued share capital comprised 35,781,923 ordinary shares of 25p each. There were no shares held in Treasury.

Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

AIC

The Company is a member of the Association of Investment Companies.

Website

The Company's website, which can be found at www.jpmeuropeansmallercompanies.co.uk, includes useful information about the Company, such as daily prices, factsheets and current and historic half year and annual reports.

Financial Results

Total returns (includes dividends reinvested)

+20.6%

Return to shareholders¹
(2012: -21.3%)

+16.7%

Return on net assets²
(2012: -21.3%)

+14.7%

Benchmark return³
(2012: -19.6%)

16.0p

Dividend

(2012: 17.0p)

Performance

for periods ended 31st March 2013

- JPMorgan European Smaller Companies - return to shareholders¹
- JPMorgan European Smaller Companies - return on net assets²
- Benchmark return³

A glossary of terms and definitions is provided on page 60

¹Source: Morningstar

²Source: J P Morgan

³Source: HSBC The Company's benchmark is the HSBC Smaller European Companies (ex UK) Index in sterling terms

Chairman's Statement

I am pleased to present the Company's results for the year ended 31st March 2013 in my first statement as Chairman

Performance

During the year ended 31st March 2013, the Company outperformed its benchmark index. The Company's total return on net assets (i.e. with net dividends reinvested) was +16.7%, which compares with a return of +14.7% on the same basis from the Company's benchmark, the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms. This continues your Company's long term outperformance of the index with the three, five and ten years also generating a higher return than the index.

Performance attribution analysis shows that the Investment Managers contributed +2.3%. A review of the market and more details on performance are given in the Investment Managers' Report.

The discount of the Company's share price to net asset value decreased over the year from 15.5% to 13.0% at year end, resulting in a total return to shareholders of 20.6%.

Marketing

The regulatory environment for Independent Financial Advisers changed this year following the completion of the Retail Distribution Review ('RDR') and is already offering opportunities to attract new investors into the Company. The Manager has organised a number of specialist roadshows and information material to support the IFAs who are new to the sector. Your Board and Manager have also focused on increasing broader awareness of our Company and have instigated a range of measures to achieve this. New investors to our Company are coming from a variety of different sources: from the established base of stockbrokers and wealth managers we already know, to more IFAs recommending investment trusts for the first time and increasingly investors attracted through electronic media. Our website has been greatly improved and our fund managers regularly provide fund and market updates on it. We intend to increase this focus on spreading awareness of our Company throughout this year.

Revenue and Dividends

Our Company's objective is to provide our shareholders with capital return and this focus means that the level of income received by our Company during a year is quite variable, as our Manager will optimise the growth structure of the portfolio.

Net revenue return for the year amounted to £6.1 million (2012: £7.1 million), thus increasing the positive balance on the Company's Revenue Reserve. The Board's policy is to pay out the vast majority of the revenue available each year. An interim dividend of 6.0 pence per share was paid on 16th January 2013. Subject to shareholder approval at the forthcoming Annual General Meeting, a final dividend of 10.0 pence per share will be paid on 30th August 2013 to shareholders on the register at the close of business on 2nd August 2013 (ex dividend date 31st July 2013).

Gearing

Your Investment Managers actively manage the gearing level of your Company within a framework set by your Board that is currently between 20% net cash and 20% geared. This has been a considerable source of extra value over the years and in the last year contributed 1.2% to relative outperformance of the index.

Share Buybacks

Your Board carefully monitors the level of the discount and seeks to use its ability to buy back shares to minimise short term volatility in the level of the discount. In accordance with this policy your Board repurchased 310,000 shares for cancellation during the year (excluding the shares repurchased as a result of the reverse tender offer).

Tender Offer

The discount has remained higher than the Board had hoped and having considered the position of the Company carefully and after taking independent advice, as announced on 15th May 2013, the Board has decided to implement a limited tender offer for up to 5% of the Company's ordinary share capital at a tender price being the NAV per ordinary share (including the undistributed revenue reserves) less the direct costs and expenses of the tender offer (including stamp duty and portfolio realisation costs) and a further 3% discount.

The tender offer requires approval by Shareholders and a special resolution will therefore be put to Shareholders at a General Meeting to be held immediately after the Company's Annual General Meeting on 16th July 2013. The record date for the tender offer was the close of business on 14th May 2013.

The Board

During the year, Paul Manduca and Michael Wrobel retired from the Board. I would like to record my thanks to Paul and Michael for their considerable contribution to the Company. I assumed the role of Chairman on 1st January 2013, having served as a Director since September 2010. The Board engaged the services of an independent search consultant to recruit a new Director and on 1st January 2013, Ashok Gupta was appointed. Ashok brings considerable experience to the Board. He is Advisor to the Group Chief Executive Officer at Old Mutual Plc, a Member of the FRC Actuarial Council, Chairman of eValueFE (which provides actuarially-based financial planning tools to major banks, insurers and IFAs) and Chairman of Skandia Life UK.

Corporate Governance

The governance of the Company is a key matter for the Board and we review a range of relevant matters at each Board meeting in a planned and structured manner and more details of this can be found on page 25. We hold an annual strategy review and this year we focused on how we could best take advantage of the new opportunities flowing from RDR, how to develop our electronic offering, the implications of the Alternative Investment Fund Managers Directive, the Company's risk appetite statement, how to maximise the benefits of gearing and how to manage our revenue

Chairman's Statement continued

We hold a formal annual Board evaluation and the Nomination and Remuneration Committee evaluated the operations of the Board, individual Directors and the Chairman. We continue to adopt best practices in corporate governance and in accordance with the UK Code of Corporate Governance will present all Directors for annual reappointment and this year an externally facilitated Directors' appraisal will take place.

Manager Evaluation

During the year the Board carried out a formal review of the Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). This covered the investment management, company secretarial, administrative and marketing services provided to the Company by JPMAM and took into account their investment performance record, management processes, investment style, resources and risk control mechanisms. The Board is satisfied with the performance of the Manager and concluded that its continued appointment on the existing terms is very much in the interests of shareholders as a whole.

Annual General Meeting

The Company's AGM will be held at Holborn Bars, 138-142 Holborn, London EC21N 2NQ, on Tuesday 16th July 2013 at 12.00 noon. The Investment Managers will make a presentation reviewing the past year and commenting on the outlook for the current year. The meeting will be followed by a General Meeting to approve the Tender Offer. Your Board and the Manager invite all shareholders to join them for lunch where there will be opportunities for informal questions.

Outlook

Your Investment Managers are encouraged by the positive feedback from many of the companies they research and see many opportunities to invest in attractive companies at reasonable ratings.

Carolyn Dobson
Chairman

31st May 2013

Investment Managers' Report

Jim Campbell

Investment Scope and Process

The objective of the Company is to achieve capital growth from a portfolio of quoted smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the HSBC Smaller European Companies (ex UK) Index. At the end of March 2013 the index consisted of 1,000 companies with a market value of between £74 million and £2.6 billion across 15 countries. This universe of potential investments is screened using a proprietary multi-factor model, to the results of which we apply fundamental analysis.

The investment process is driven by bottom-up stock selection with a focus on identifying market leading growth companies which offer the potential to outperform over the long term. Position sizing is determined by investment conviction and trading liquidity in a stock. Investments are sold when there is a fundamental negative change in business prospects, long term price momentum has broken down or the market capitalisation has outgrown significantly the benchmark index. The policy is not to hedge the currency exposure of the portfolio's assets. The Board has established a liquidity range of between 20% net cash and 20% geared within which the Managers may operate.

Francesco Conte

Performance attribution for the year ended 31st March 2013		
	%	%
Contributions to total returns		
Benchmark total return		14.7
Asset allocation	0.6	
Stock selection	0.7	
Gearing/cash effect	1.2	
Currency effect	-0.2	
Investment managers contribution		2.3
Portfolio total return		17.0
Management fee/other expenses	-1.3	
Share buybacks	0.1	
Tender offer	0.9	
Other effects		-0.3
Return on net assets		16.7
Effect of decrease in discount		3.9
Return to shareholders		20.6
Source: Xamin/Datastream/JPMAM/Morningstar		
All figures are on a total return basis		
Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark index		
A glossary of terms and definitions is provided on page 60		

Market Review

The financial year began poorly as confidence generated by the ECB's near €1 trillion liquidity injection into the banking system between December 2011 and February 2012 began to wane and markets focused increasingly on the structural difficulties of the Euro project. With a loss of confidence in the Euro, by June 2012 European equities had sold-off sharply and bond yields in the two largest Eurozone periphery economies, Italy and Spain, had reached what appeared to be unsustainable levels.

The turning point for the better proved to be ECB President Draghi's speech on 26th July 2012 when he asserted that 'Within our mandate, the ECB is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough.' Markets responded positively and pursued an upward trajectory through to the Company's year end, which none of the US fiscal cliff, Cypriot financial bailout or unresolved Italian election was able to derail. This renewed confidence was reflected in bond markets and, by the second quarter of 2013, yields in both Italy and Spain were making three year lows.

Over the 12 months to 31st March 2013 the large company MSCI Europe (ex UK) Index rose by 18.0% in sterling. Smaller companies lagged a little, but still the HSBC Smaller European Companies (ex UK) Index in sterling rose by 14.7%.

Investment Managers' Report continued

Portfolio Performance

The net asset value of the Company rose by 16.7% over the year, outperforming the benchmark HSBC Index by 2.0% thanks to positive stock selection and successful management of the portfolio's gearing. Top stock contributors included French food and pharmaceutical testing provider Eurofins Scientific, whose services were re-rated following the horse meat scandal, German independent mobile telecom service provider Freenet, where the cheap valuation and strong free cash flow generation drove strong performance, Danish hearing aid and headset producer GN Store Nord, which benefitted from ongoing restructuring and German industrial lubricants producer Fuchs Petrolub, which continued to profit from global growth. Stocks which failed to deliver expected returns included Dutch oil service business SBM Offshore, which was hurt by poor contract execution and automotive services business D'leteren, which suffered from increased competition.

Portfolio liquidity was actively managed over the year, moving from being 7.6% geared at the end of March 2012 to approximately 10% cash in June and this was reinvested as the market recovery gained momentum to end the year with 12.9% gearing.

12 Month Gearing v Benchmark Level

Source: JPMorgan Asset Management, HSBC

<p>Top 10 Sector Active Positions</p> <p>March 2012</p>	<p>Portfolio Positioning</p> <p>March 2013</p>
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Source JPMorgan Asset Management, Factset, HSBC

With holdings in Dutch business software producer Unit4 and French research and development consultancies Alten and Altran Technologie, software and computer services again represented one of the portfolio's most overweight sectors relative to the benchmark index at the end of March 2013. This was followed by chemicals, with investments in Swiss pigments and additives specialist Clariant and in German industrial lubricants producer Fuchs Petrolub and flavours and fragrances business Symrise. The newly overweight position in auto components comprised such companies as Faurecia and Plastic Omnium in France. Non-life insurance was again one of the most overweight sectors with holdings in Topdanmark in Denmark and Helvetia Holding in Switzerland. Real estate remained one of the portfolio's most underweight sectors relative to the benchmark.

Valuation

In terms of valuation, smaller companies in Europe now trade on a price/book multiple comparable to large companies. As shown below, this is towards the top end of the range in which they have traded over the last twenty years. Nevertheless, as also can be seen below, smaller companies are cheap on an absolute basis, currently being valued towards the bottom end of the historic range of 1.0 – 2.5x book value. Both the portfolio and the benchmark HSBC Index currently have a price/earnings ratio of 12.8x 2013 earnings.

Investment Managers' Report continued

European Smaller Company Valuations

Relative Valuations – Price/Book

Absolute Valuations – Price/Book

Source: European Quantitative Research, Citigroup Investment Research. Data as at 28th March 2013

Outlook

For the time being, the worst of the Euro crisis appears to be behind us and the mood in the Eurozone is relatively calm. Indeed, it is impressive to witness the magnitude of progress made in the most troubled periphery countries and Ireland, Spain, Portugal and even Greece are beginning to see light at the end of the tunnel. The extent of change in these countries is analogous to that experienced in Britain in the early 1980s but with a notable difference. Absent the option of currency devaluation, these Eurozone countries have regained their competitiveness by cutting salaries, in some cases by up to 50%. Whilst the social cost has been extremely high, there is mounting anecdotal evidence that the worst is over. In Greece, for example, with many hotel prices down sharply over the last three years, summer holiday bookings for 2013 are up by 20% as the country can once again compete with Turkey. A similar process is underway in Spain and Portugal where car manufacturers are expanding capacity.

More broadly, with lacklustre economic growth across the developed world and markets having rallied a long way from the lows of June 2012, it could be tempting to take some profits. However, with bond yields at historically low levels – compressing risk premiums, with central banks committed to very loose monetary policies, with liquidity rich companies increasingly willing to return cash to shareholders and with absolute valuations near historic lows, we believe that there can be more to go for. We are optimistic that economic growth may have bottomed in the first quarter of this year and should begin to recover as the year unfolds.

Jim Campbell

Francesco Conte

Investment Managers

31st May 2013

Summary of Results

	2013	2012	
Total returns for the year ended 31st March			
Return to shareholders ¹	+20.6%	-21.3%	
Return on net assets ²	+16.7%	-21.3%	
Benchmark return ³	+14.7%	-19.6%	
			% change
Net asset value, share price, discount and market data at 31st March			
Shareholders' funds (£'000)	349,107	342,299	+2.0
Net asset value per share	975.7p	854.0p	+14.3
Share price	849.0p	722.0p	+17.6
Share price discount to net asset value per share	13.0%	15.5%	
Shares in issue	35,781,923	40,083,803	
HSBC Smaller European Companies (ex UK) Index in sterling terms (capital only) ⁴	305.9	272.5	+12.3
Revenue for the year ended 31st March			
Gross revenue return (£'000)	8,481	10,215	-17.0
Net revenue available for shareholders (£'000)	6,134	7,055	-13.1
Revenue return per share	16.47p	17.12p	-3.8
Dividend per share	16.0p	17.0p	-5.9
Gearing at 31st March⁵	12.9%	7.6%	
Ongoing Charges⁶	1.26%	1.27%	

A glossary of terms and definitions is provided on page 60

¹Source: Morningstar

²Source: J.P. Morgan

³Source: HSBC. The Company's benchmark is the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms

⁴Source: HSBC

⁵Gearing represents the excess amount above shareholders' funds of total assets less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a net cash position. The figure for 2012 has been restated.

⁶Management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2012: Total Expense Ratio: Management fee and all other expenses, excluding finance costs, expressed as a percentage of the average of the month end net assets during the year). Ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st March 2003

Source Morningstar/HSBC

- JPMorgan European Smaller Companies - share price total return
- JPMorgan European Smaller Companies - net asset value total return
- Benchmark

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st March 2003

Source Morningstar/HSBC

- JPMorgan European Smaller Companies - share price total return
- JPMorgan European Smaller Companies - net asset value total return
- Benchmark

Ten Year Financial Record

At 31st March	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total assets less current liabilities (£'m)	116.0	162.6	225.9	373.0	450.2	394.0	270.1	415.9	477.4	342.3	366.0
Net asset value per share (p)	196.9	298.2	421.8	709.0	876.8	807.8	573.6	907.6	1097.3	854.0	975.7
Share price (p)	144.5	246.0	369.8	636.0	805.0	680.0	460.0	735.0	930.0	722.0	849.0
Share price discount (%) ¹	26.6	17.5	12.3	10.3	8.2	15.8	19.8	18.7	15.2	15.5	13.0
Gearing/(net cash) (%) ²	4.9	7.8	4.9	3.8	(3.8)	(1.6)	(1.9)	0.2	16.7	7.6	12.9
Ongoing Charges (%) ³	1.39	1.46	1.20	1.25	1.21	1.33	1.27	1.21	1.21	1.27	1.26
Year ended 31st March											
Gross revenue return (£'000)	3,572	3,446	4,218	4,898	7,767	6,149	10,067	8,431	9,241	10,215	8,481
Net revenue available for Shareholders (£'000)	274	869	91	216	1,279	(376)	7,363	2,167	2,369	7,055	6,134
Return/(loss) per share (p)	0.48	1.59	0.17	0.41	2.49	(0.75)	15.38	4.63	5.33	17.12	16.47
Dividend per share (p)	–	–	–	–	–	–	–	3.0	4.0	17.0	16.0
Rebased to 100 at 31st March 2003											
Share price total return ⁴	100.0	170.2	255.9	440.3	557.3	470.7	318.5	508.9	646.9	509.3	614.1
Net asset value total return ⁴	100.0	151.4	214.2	360.9	445.6	408.2	290.3	458.0	559.2	435.9	508.9
Benchmark ⁵	100.0	158.4	207.7	311.7	370.6	339.3	208.1	364.5	416.2	334.6	383.6

A glossary of terms and definitions is provided on page 60

¹From 2006 onwards discount figures have been sourced from Bloomberg and are calculated using the net asset value at the year end, excluding the current year revenue account balance. Prior years have not been restated.

²Gearing represents the excess amount above shareholders' funds of total assets less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position. The figure for 2012 has been restated, as detailed in note 22.

³Management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2012: Total Expense Ratio: Management fee and all other expenses, excluding finance costs, expressed as a percentage of the average of the month end net assets during the year 2008 and prior years the average of the opening and closing net assets). Ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

⁴Source: Morningstar

⁵Source: HSBC. The Company's benchmark is the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms.

Ten Largest Investments¹

At 31st March

Company	Business	2013 Valuation		2012 Valuation	
		£'000	% ²	£'000	% ²
Freenet ³	Telecoms service provider	12,625	3.5	8,132	2.4
Clariant	Speciality chemicals	10,719	2.9	10,234	3.0
Eurofins Scientific ³	Food & pharmaceutical testing	9,430	2.6	1,580	0.5
Fuchs Petrolub ³	Lubricants producer	9,099	2.5	8,281	2.4
Ubisoft ⁴	Computer software	9,030	2.5	–	–
Trelleborg ³	Industrial products	8,944	2.4	7,359	2.1
Nutreco	Producer of animal feeds	8,888	2.4	10,381	3.0
SBM Offshore ³	Oil and gas services	8,868	2.4	9,428	2.7
Paddy Power ³	Bookmaker	8,865	2.4	6,168	1.8
Outotec ³	Mining equipment	8,716	2.4	3,990	1.2
Total⁵		95,184	26.0		

¹Excluding the holding in the JPMorgan Euro Liquidity Fund, which is held as an alternative to cash

²Based on total assets less current liabilities of £366.0m (2012: £342.3m)

³Not included in the ten largest investments at 31st March 2012

⁴Not held in the portfolio at 31st March 2012

⁵At 31st March 2012, the value of the ten largest investments amounted to £111.0m representing 32.4% of total assets less current liabilities

Portfolio Analyses

Geographical Analysis	31st March 2013		31st March 2012	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
France	17.8	12.5	20.3	13.0
Italy	15.7	10.4	14.4	10.1
Germany	14.9	14.6	13.6	14.2
Netherlands	14.6	4.6	10.9	4.8
Switzerland	12.7	10.6	12.8	11.5
Sweden	9.2	10.8	6.7	9.5
Denmark	8.5	4.0	7.7	3.8
Finland	5.4	4.9	2.9	6.1
Ireland	3.0	2.3	1.8	2.1
Norway	2.5	6.5	6.1	6.4
Austria	1.1	3.6	0.2	3.0
Greece	1.1	2.8	–	2.4
Belgium	0.9	4.3	2.3	4.6
Spain	0.3	6.3	5.3	6.1
Portugal	–	1.6	–	1.7
Russia	–	0.2	–	0.4
United Kingdom	–	–	–	0.2
Bermuda	–	–	–	0.1
Total equities	107.7	100.0	105.0	100.0
Liquidity fund	3.8	–	4.4	–
Net current liabilities	(11.5)	–	(9.4)	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £366.0m (2012: £342.3m)

Sector Analysis	31st March 2013		31st March 2012	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Industrials	26.2	23.9	27.6	24.0
Financials	18.7	20.7	16.1	20.5
Consumer Discretionary	16.8	14.0	11.0	16.2
Materials	12.6	8.0	13.5	8.3
Information Technology	11.7	7.9	7.8	8.0
Health Care	8.7	9.4	5.9	8.2
Energy	4.7	5.5	15.2	5.6
Telecommunication Services	4.0	1.7	3.0	1.3
Consumer Staples	3.4	6.5	4.9	5.9
Utilities	0.9	2.4	–	2.0
Total equities	107.7	100.0	105.0	100.0
Liquidity fund	3.8	–	4.4	–
Net current liabilities	(11.5)	–	(9.4)	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £366.0m (2012: £342.3m)

Investment Activity

during the year ended 31st March 2013

	Value at 31st March 2012		Purchases	Sales	Changes in value	Value at 31st March 2013	
	£'000	%	£'000	£'000	£'000	£'000	%
France	69,548	20.3	66,049	(74,454)	3,480	64,623	17.7
Italy	49,195	14.4	86,761	(86,148)	8,032	57,840	15.8
Germany	46,518	13.6	187,616	(196,812)	16,804	54,126	14.8
Netherlands	37,279	10.9	48,140	(31,672)	72	53,819	14.7
Switzerland	43,805	12.8	79,993	(80,741)	3,171	46,228	12.6
Sweden	23,001	6.7	94,899	(82,626)	(1,461)	33,812	9.2
Denmark	26,423	7.7	70,187	(73,437)	8,098	31,271	8.5
Finland	9,914	2.9	76,619	(65,553)	(1,367)	19,613	5.4
Ireland	6,168	1.8	15,624	(12,923)	2,393	11,262	3.0
Norway	20,750	6.1	60,285	(72,958)	1,157	9,234	2.5
Austria	486	0.2	19,758	(18,139)	1,803	3,908	1.1
Greece	–	0.0	4,928	–	(1,051)	3,877	1.1
Belgium	7,937	2.3	14,840	(20,057)	531	3,251	0.9
Spain	18,114	5.3	20,782	(37,472)	(66)	1,358	0.4
Portugal	–	0.0	1,336	(1,282)	(54)	–	0.0
Total portfolio	359,138	105.0	847,817	(854,274)	41,542	394,223	107.7
Liquidity fund	15,003	4.4	118,700	(119,302)	(490)	13,911	3.8
Net current liabilities	(31,842)	(9.4)	–	–	(10,272)	(42,114)	(11.5)
Total assets less current liabilities	342,299	100.0	966,517	(973,576)	30,780	366,020	100.0

List of Investments

at 31st March 2013

Company	Valuation £'000	Company	Valuation £'000
France		Germany	
Eurofins Scientific	9,430	Freenet	12,625
Ubisoft	9,030	Fuchs Petrolub	9,099
Teleperformance	8,137	Duerr	8,636
Plastic-Omnium	7,217	Symrise	7,716
Alten	6,805	Drillisch	2,109
Altran Technologies	5,031	Bertrandt	2,027
Faurecia	4,821	Kuka	1,937
Ipsos	4,642	Sartorius	1,412
Faiveley Transport	3,581	Norma Group	1,362
Rubis	3,340	KWS Saat	1,293
Medica	1,167	Jungheinrich	1,237
Gameloft	1,078	Draegerwerk	1,206
Axway Software	344	Carl Zeiss Meditec	1,020
Total	64,623	Bechtle	927
		Grammer	902
Italy		Patrizia Immobilien	618
Azimut	7,842	Total	54,126
Buzzi Unicem	7,645		
Banca Popolare di Milano	6,691	Netherlands	
Yoox	6,377	Nutreco	8,888
Danieli	6,204	SBM Offshore	8,868
Banca Generali	6,021	Unit 4 Agresso	8,494
Indesit	5,059	Delta Lloyd	8,466
Recordati	4,653	Arcadis	7,016
Sorin	3,772	Aalberts Industries	6,187
Brembo	1,710	BAM Groep	2,939
IMA	1,542	BinckBank	1,561
Cementir	324	TKH	1,400
Total	57,840	Total	53,819
		Switzerland	
		Clariant	10,719
		GAM	8,416
		Helvetia	7,921
		EFG International	6,661
		Rieter	6,413
		Flughafen Zurich	3,940
		Temenos	2,158
		Total	46,228

List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
Sweden		Norway	
Trelleborg	8,944	TGS Nopec Geophysical	8,353
Modern Times Group	7,061	SpareBank 1	881
NCC	5,738	Total	9,234
Betsson	3,874		
Hexpol	2,121	Austria	
AarhusKarlshamn	1,341	Austriamicrosystems	3,534
Intrum Justitia	1,242	Wienerberger	374
Loomis	1,236	Total	3,908
Fastighets Balder	1,197		
AF	1,058	Greece	
Total	33,812	Hellenic Exchanges	3,877
		Total	3,877
Denmark			
GN Store Nord	7,457	Belgium	
Topdanmark	7,413	Arseus	1,859
Pandora	7,219	Kinopolis	1,392
Chr Hansen	6,577	Total	3,251
SimCorp	1,304		
Royal Unibrew	903	Spain	
ALM Brand	398	Grupo Catalana Occidente	1,218
Total	31,271	Obrascon Huarte Lain	141
		Total	1,359
Finland		Liquidity Fund	
Outotec	8,716	JPM Euro Liquidity Fund	13,911
Cargotec	5,298	Total	13,911
Amer Sports	2,103		
Tieto	1,822	Total Investments	408,134
Huhtamaki	1,674		
Total	19,613		
		Total investments comprise £394,223,000 in equity shares and £13,911,000 in a liquidity fund	
Ireland			
Paddy Power	8,865		
Grafton	1,203		
Kingspan	1,194		
Total	11,262		

Board of Directors

Carolyn Dobson (Chairman)

A Director since September 2010 Appointed Chairman in 2013

Last reappointed to the Board 2012

Remuneration £34,000

Other directorships Chairman of Aberdeen Smaller Companies High Income Trust plc and member of the Competition Commission and Chairman of the Cost of Capital panel Trustee of Vaillant Pension scheme and Chair of the Investment Committee, the Independent Investment Adviser to the Environment Pension Fund and a number of other pension funds and Board member and Chair of the Audit Committee of sportScotland She has a wealth of investment experience, having been Head of UK Equities at Abbey Asset Managers, Head of Investment Trusts at Murray Johnstone and fund manager of Murray Income plc

Connections with Manager None

Shared Directorships with any other Trust Directors None

Shareholding in Company 2,000

Anthony Davidson (Chairman of the Audit Committee)

A Director since May 2005

Last reappointed to the Board 2012

Remuneration £25,000

Other directorships Chairman of Shires Income PLC Director of a number of life companies within the Phoenix Group, namely London Life Limited, Phoenix Life Assurance Limited, National Provident Life Limited, NPI Limited and Phoenix Life Limited Formerly Chief Executive of Provincial Insurance plc

Connections with Manager Formerly Chairman of JPMorgan Fleming Worldwide Income Investment Trust plc

Shared Directorships with other Directors None

Shareholding in Company 5,086

Federico Marescotti

A Director since December 2005

Last reappointed to the Board 2012

Remuneration £22,500

Other directorships Executive Chairman of Vela Capital, Italy A Director of Dunedin Enterprise Investment Trust plc

Connections with Manager None

Shared Directorships with other Directors None

Shareholding in Company 1,232

Board of Directors continued

Stephen White

A Director since 1st April 2012

Last reappointed to the Board 2012

Remuneration £22,500

Other directorships Head of European and US equities at British Steel Pension Fund, responsible for the day to day management of the Fund's Europe ex-UK and US equity portfolios Formerly a non-executive director of Global Special Opportunities Trust Plc, Head of European Equities at F&C Asset Management and Manager of Foreign & Colonial Eurotrust PLC and Deputy Manager of the Foreign & Colonial Investment Trust Plc

Connections with Manager None

Shared Directorships with other Directors None

Shareholding in Company 5,000

Ashok Gupta

A Director since 1st January 2013

Last reappointed to the Board n/a

Remuneration £22,500

Other directorships Advisor to the Group Chief Executive Officer at Old Mutual Plc He is a member of the FRC Actuarial Council, Chairman of eValue FE, Chairman of Skandia Life UK and a Director of AA Insurance Services and New Ireland Assurance plc Formerly Director of The Pensions Regulator, J Rothschilds Assurance and the Pearl Group

Connections with the Manager None

Shared Directorships with other Directors None

Shareholding in Company Nil

All Directors are members of the Audit and Nomination and Remuneration Committees and are considered by the Board to be independent of the Manager

Directors' Report

The Directors present their report and audited financial statements for the year ended 31st March 2013

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158') for the year ended 31st March 2012. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust under HM Revenue and Customs' qualifying rules.

Approval in previous years is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 8.

Objective

The Company's objective is to achieve capital growth from smaller European companies (excluding the United Kingdom).

Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2013, consisted of 1,000 companies with a market value of between £74 million and £2.6 billion across 15 countries.

The Company manages liquidity and borrowings to increase potential sterling returns to shareholders. The Company borrows in Euros in order to hedge the currency risk in respect of the geared portion of the portfolio.

The investment policy emphasises capital growth rather than income and shareholders should therefore expect dividends to vary from year to year.

The Board has set no minimum or maximum limits on the number of investments in the portfolio but, in the year under review, the number of investments ranged between

approximately 85 to 100. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds. JPMAM is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by two investment managers based in London, supported by a 40-strong European equity team.

It should be noted that the Company invests in the shares of smaller companies which tend to be more volatile than those of larger companies and the Company's shares should therefore be regarded as carrying greater than average risk.

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions:

- The Company must demonstrate that it has policies in place to spread its investment risk. The Company will not invest more than 12.5% of its total assets in any one individual stock at the time of acquisition. (Prior to 1st April 2012, as an investment trust, the Company was not permitted to invest more than 15% of its assets in any one investment at the time of acquisition. This limit no longer applies.)
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval.
- No more than 25% of the Company's assets may be invested in the aggregate of (i) securities not listed on a recognised exchange, and (ii) holdings in which the Company has 20% or more of the issued equities. It is unlikely that the Company would invest in companies that fall into either of these categories and did not do so in the year under review.
- In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.
- The Board has set a normal gearing range of 20% net cash to 20% geared.
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval.

These limits and restrictions may be varied by the Board at any time at its discretion.

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

Directors' Report continued

Performance

In the year to 31st March 2013 the Company produced a total return to shareholders of +20.6% and a total return on net assets of +16.7%. This compares with the return on the Company's benchmark index of +14.7%. As at 31st March 2013 the value of the Company's investment portfolio was £408.1 million. The Investment Managers' Report on pages 5 to 8 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross return for the year amounted to £48.1 million (2012: £92.4 million loss) and net total return after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £43.0 million (2012: £99.5 million loss). Net revenue return on ordinary activities after taxation for the year amounted to £6.1 million (2012: £7.1 million). An interim dividend of 6.0p per share (2012: 6.0p) was paid during the year, costing £2,150,000. The Directors have proposed a final dividend of 10.0p (2012: 11.0p) per share. This dividend will cost £3,578,000 and the revenue reserve would have amounted to £2,105,000 had the dividend been accounted for in the year.

Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**
This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report.

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st March 2003.

Source: Morningstar/HSBC

- JPMorgan European Smaller Companies – share price total return
- JPMorgan European Smaller Companies – net asset value total return
- The benchmark is represented by the grey horizontal line

Ten Year Performance

Figures have been rebased to 100 at 31st March 2003.

Source: Morningstar/HSBC

- JPMorgan European Smaller Companies – share price total return
- JPMorgan European Smaller Companies – net asset value total return
- Benchmark

- **Performance against the Company's peers**
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance attribution**
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st March 2013 are given in the Investment Managers' Report on page 5.
- **Share price discount to net asset value ('NAV') per share**
The Board has for several years operated a share repurchase programme which seeks to address imbalances in supply and demand for the Company's shares within the market and thereby seek to manage the volatility and absolute level of the discount to NAV per share at which the Company's shares trade. In the year to 31st March 2013, the discount ranged between 12.0% and 16.6%, with an average of 14.6% (using month end data, with debt at par value). More information on the Board's share buyback policy is given in the Chairman's Statement.

Discount Performance

Source: Datastream (month end data)

■ JPMorgan European Smaller Companies - discount (with debt at par value)

• Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The method of calculating the ongoing charges has been changed. In previous years, the Total Expense Ratio ('TER') was calculated, which represented the Company's management fee and other operating expenses excluding finance costs payable, expressed as a percentage of the average of the month end net assets during the year. The ongoing charges for the year ended 31st March 2013 were 1.26% (2012 TER 1.27%). The Board reviews each year an analysis which shows a comparison of the Company's ongoing charges and its main expenses with those of its peers.

Share Capital

The Directors have authority both to issue new shares for cash and to repurchase shares in the market for cancellation or to be held in Treasury.

During the year the Company repurchased a total of 4,301,880 shares for cancellation, representing 10.7% of the issued share capital at the beginning of the year, for a total consideration of £30.0 million. This figure includes 3,991,880 shares repurchased and cancelled as a result of a reverse auction tender offer in July 2012. Since the year end, the Company has repurchased a further 135,000 ordinary shares for cancellation for a total consideration of £1.1 million.

The Company did not issue any new shares during the year or since the Company's year end until the date of this report. The Company does not have authority to reissue shares from

Treasury at a discount to net asset value and will not seek such authority at the forthcoming Annual General Meeting. It will however, seek authority to reissue shares from Treasury at a premium to net asset value.

Resolutions to renew the authority to issue new shares and to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting. The full text of those resolutions are set out in the Notice of Meeting on pages 57 and 58.

Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- **Market** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implementation and results of the investment process with the Manager.
- **Accounting, Legal and Regulatory** In order to qualify as an investment trust, the Company must comply with Section 1158. Details of the Company's approval are given

Directors' Report continued

under 'Business of the Company' above. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure and Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM and its professional advisers to ensure compliance with the Companies Act, the UKLA Listing Rules and DTRs.

- **Corporate Governance and Shareholder Relations** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 25 to 29.
- **Operational** Loss of key staff by JPMAM, such as the Investment Managers, could affect the performance of the Company. Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Risk Management and Internal Control section of the Corporate Governance report on pages 25 to 29.
- **Financial** The financial risks arising from the Company's financial instruments include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 21 on pages 48 to 54.

Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments and the continued support of its shareholders. The Investment Managers discuss the outlook in their report on page 8.

Management of the Company

The Manager and Company Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract which can be terminated on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JPMAM is a wholly owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board conducts a formal evaluation of the Manager on an annual basis. No separate management engagement committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process. The evaluation includes consideration of the investment strategy and process of the Manager, performance against the benchmark over the long term and the quality of support that the Company receives from JPMAM including the marketing support provided. As a result of the evaluation process carried out in 2013, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

Management Fee

The management fee is charged at the rate of 1.3% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. An adjustment is made to exclude from the calculation investments in funds on which JPMAM charges a management fee. In addition, the Company reimburses JPMAM for the costs of administering its shareholders who hold their shares through the JPMAM savings products.

Going Concern

The Directors believe that, having considered the Company's investment objective (see page 19), risk management policies (see pages 48 to 54), capital management policies and procedures (see page 55), the nature of the portfolio and expenditure and cash flow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms. As at 31st March 2013, the Company had no outstanding trade creditors (2012: none)

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's shares are shown below

	31st March 2013	1st April 2012
Anthony Davidson ¹	5,086	5,063
Carolyn Dobson ²	2,000	1,075
Ashok Gupta ³	nil	n/a
Federico Marescotti ⁴	1,232	1,222
Stephen White	5,000	n/a

¹Purchase of 23 shares by way of dividend reinvestment

²Purchase of 925 shares

³Appointed 1st January 2013

⁴Purchase of 10 shares by way of dividend reinvestment

There have been no changes in these holdings reported since the year end

Stephen White and Ashok Gupta were appointed Directors during the year, on 1st April 2012 and 1st January 2013 respectively. Michael Wrobel and Paul Manduca retired as Directors on 18th July 2012 and 31st December 2012 respectively. In accordance with corporate governance best practice, all Directors will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders. The Nomination and Remuneration Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director standing for reappointment continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The indemnities were in place during the year and as at the date of this report.

An insurance policy is maintained by the Company which insures the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved

- (a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's Auditors are unaware, and
- (b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors and a resolution to reappoint them and authorise the Directors to determine their remuneration for the ensuing year, will be proposed at the Annual General Meeting.

Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on page 29. The Company has no employees.

Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

Directors' Report continued

Capital Structure

At 31st March 2013 the Company's share capital comprised 35,781,923 ordinary shares of 25p each. There were no shares held in Treasury.

Voting Rights in the Company's Shares

Details of the voting rights in the Company's shares as at the date of this report are given in Note 16 to the Notice of AGM on page 59.

Notifiable Interests in the Company's Voting Rights

At the end of the financial year, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Lazard Asset Management LLC ¹	5,381,622	15.0
National Grid UK Pension Scheme ²	2,852,879	8.0
Legal & General Investment Management ²	1,877,614	5.2
East Riding of Yorkshire Council ¹	1,600,000	4.5
1607 Capital Partners, LLC ¹	1,452,840	4.1

¹Direct holding

²Indirect holding

No changes to these holdings had been notified as at the date of this report.

The Company is also aware that approximately 12.4% of the Company's total voting rights are held by individuals through savings products managed by JPMAM and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances JPMAM has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

The rules concerning the appointment, reappointment and replacement of Directors, amendment of the Company's Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, no agreements to which the Company is party that affect its

control following a takeover bid, and no agreements between the Company and its Directors concerning compensation for loss of office.

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting ('AGM'):

(i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 10 and 11)

The Directors will seek renewal of the authority at the AGM to issue up to 1,782,340 new ordinary shares for cash or by way of a sale of Treasury shares up to an aggregate nominal amount of £445,585, such amount being equivalent to approximately 5% of the present issued share capital (excluding Treasury shares) as at 29th May 2013 (being the latest practicable date before the publication of this document). The full text of the resolutions is set out in the Notice of Meeting on pages 57 and 58.

This authority will expire at the conclusion of the AGM of the Company in 2014 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares (or to sell Treasury shares) to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the NAV, thereby increasing the NAV per share and spreading the Company's administrative expenses other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies.

(ii) Authority to repurchase the Company's shares (resolution 12)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2012 AGM will expire on 17th January 2014 unless renewed at the

forthcoming AGM. The Directors consider that the renewal of this authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares.

Resolution 12 gives the Company authority to buy back its own issued ordinary shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of 5,343,473 ordinary shares, representing approximately 14.99% of the Company's issued ordinary shares as at 29th May 2013 (being the latest practicable date before the publication of this document). The authority also sets minimum and maximum prices.

If resolution 12 is passed at the AGM, the Board may repurchase the shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares as and when market conditions are appropriate. This authority will expire on 15th January 2015, or when the whole of the 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2014 AGM. The full text of the resolution is set out in the Notice of Meeting on pages 57 and 58.

Recommendation

The Board considers that resolutions 10 to 12 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which amount in aggregate to 13,318 shares representing approximately 0.04% of voting rights in the Company.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 31, indicates how the Company has applied the principles of good governance of the Financial Reporting Council UK Corporate Governance Code (the 'UK Corporate Governance Code') and the Association of Investment Companies' ('AIC') Code of Corporate

Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board has in place procedures to deal with potential conflicts of interest and, following the introduction of The Bribery Act 2010, has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

The Board meets at least five times during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board Composition

The Board, chaired by Carolan Dobson, consists of five non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors

Directors' Report continued

have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 17 and 18

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Pursuant to the Company's policy on Board composition and succession planning, following reappointment of shareholders at the first AGM after appointment, a Director's appointment will run for a maximum term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. A further term beyond six years would be subject to particularly rigorous review by the Nomination and Remuneration Committee, taking into account the need for progressive refreshing of the Board and its Committees. The Board believes that Directors should serve more than nine years only in exceptional circumstances, except in the case of a serving Chairman where the Chairman's second term of three years would result in the nine year limit being exceeded, a Chairman should serve more than six years in the role only in exceptional circumstances and the total tenure of a Chairman having previously been a Director should be no more than 12 years. Given recent changes on the Board of Directors, to ensure continuity, it has been agreed that Anthony Davidson retire at the conclusion of the July 2015 AGM and that Federico Marescotti retire at the conclusion of the July 2016 AGM. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the

requirements of the UK Corporate Governance Code. The Board has adopted corporate governance best practice and all Directors must stand for annual reappointment.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting.

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Chairman by means of the evaluation process described below.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Details of the membership of these Committees are shown with the Directors' profiles on pages 17 and 18. Directors who are not members of the Committees may attend Committee meetings at the invitation of the Chairman of the relevant Committee.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and four Nomination and Remuneration Committee meetings. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals.

Director	Board Meetings Attended	Nomination and	
		Audit Committee Meetings Attended	Remuneration Committee Meetings Attended
Anthony Davidson	5	2	4
Carolyn Dobson	5	2	4
Ashok Gupta ¹	1	n/a	1
Federico Marescotti	5	2	4
Stephen White	5	2	3

¹Appointed 1st January 2013

Board Committees

Nomination and Remuneration Committee

The Nomination and Remuneration Committee, chaired by Carolan Dobson, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. An independent third party, Fletcher Jones, was engaged to conduct the search for a new Director which resulted in the appointment of Ashok Gupta.

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity including gender, and how it works together. Questionnaires drawn up by the Board, with the assistance of JPMAM and a firm of independent consultants, are completed by each Director. The responses are collated and then discussed by the Committee. The evaluation of individual Directors is led by the Chairman who also meets with each Director. The Audit Committee Chairman leads the evaluation of the Chairman's performance. In 2014, the Board evaluation process will be externally facilitated. The Board will choose a service provider which has no other connection with the Company.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

Audit Committee

The Audit Committee, chaired by Anthony Davidson, consists of all of the Directors, as detailed on pages 17 and 18, and meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the

Managers' Compliance department and reviews the scope and results of the external audit, its cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external Auditors, in the Directors' opinion the Auditors are considered independent. Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered. Having reviewed the performance of the external Auditors, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation and a resolution will be put to the forthcoming Annual General Meeting. Details of the fees paid for audit services are included in note 5 on page 40.

The Directors' statement on the Company's system of Risk Management and Internal Control is set out on page 28.

Both the Nomination and Remuneration Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly by way of the annual report and accounts, the half year report and two interim management statements. These are supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 65.

Directors' Report continued

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via the Company's website or write to the Company Secretary at the address shown on page 65.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of risk management and internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 21 and 22). This process has been in place for the year under review and up to the date of the approval of the Annual Report and Accounts, and it accords with the Turnbull guidance. The Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of JPMAM. The key elements designed to provide effective internal control are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement – Appointment of a manager and custodian regulated by the Financial Conduct Authority ('FCA'), whose responsibilities are clearly defined in a written agreement.

Management Systems – The Manager's system of risk management and internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JPMAM's Compliance department which regularly monitors compliance with FCA rules.

Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of risk management and internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department,
- reviews reports on the risk management and internal controls and the operations of its Custodian, JPMorgan Chase Bank, which is itself independently reviewed, and
- reviews every six months an independent report on the risk management and internal controls and the operations of JPMAM.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31st March 2013 and to the date of approval of this Annual Report and Accounts.

The Board confirms that any failings or weaknesses identified during the course of its review of the system of risk management and internal control were not significant and did not impact the Company.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board.

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

JPMAM manages the voting rights of the shares entrusted to it as it would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable, we will vote at all of the meetings called by companies in which we are invested.

Stewardship/Engagement

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients,
- disclose their policy on managing conflicts of interest,
- monitor their investee companies,
- establish clear guidelines on how they escalate engagement
- be willing to act collectively with other investors where appropriate
- have a clear policy on proxy voting and disclose their voting record, and
- report to clients

JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.

Social & Environmental

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that increasingly non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request. JPMAM is also a signatory to the Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website <http://www.jpmorganinvestmenttrusts.co.uk/governance>, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

Rebecca L. Burtonwood

By order of the Board
Rebecca Burtonwood, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
31st May 2013

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The Auditors' opinion is included in their report on page 32.

Directors' Remuneration¹

Directors' Name	2013 £	2012 £
Elisabeth Airey ²	n/a	8,990
Anthony Davidson	25,000	25,000
Carolyn Dobson ³	25,375	22,500
Ashok Gupta ⁴	5,625	n/a
Paul Manduca ⁵	25,500	31,125
Federico Marescotti	22,500	22,500
Stephen White ⁶	22,500	n/a
Michael Wrobel ⁷	11,250	22,500
Total	137,750	132,615

¹Audited information

²Resigned as Chairman and as a Director on 8th July 2011

³Appointed Chairman 1st January 2013

⁴Appointed Director 1st January 2013

⁵Appointed Chairman 8th July 2011, resigned as Chairman and as a Director on 31st December 2012

⁶Appointed Director 1st April 2012

⁷Resigned as a Director 18th July 2012

In the year under review, Directors' fees were paid at the following rates, Chairman £34,000 per annum, Chairman of the Audit Committee £25,000 per annum, and other Directors £22,500 per annum. With effect from 1st April 2013 fees were increased to the following levels: Chairman £35,500 per annum, Audit Committee Chairman £26,000 per annum, other Directors £23,500 per annum. The previous increase was with effect from 1st April 2011.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

Remuneration of the Directors is considered by the Nomination and Remuneration Committee on a regular basis. The Committee makes recommendations to the Board as and when

appropriate. Reviews are based on information provided by the Manager, JPMAM, and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance related. The Company's Articles of Association stipulate that aggregate fees must not exceed £175,000 per annum. Any increase in the maximum aggregate amount requires both Board and shareholder approval.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 26.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company. The Directors do not have service contracts and are not paid compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

A graph showing the Company's share price total return compared with its benchmark, the HSBC Smaller European Companies (ex UK) Total Return Index, is shown below.

Five year share price and benchmark total return to 31st March 2013

Source: Morningstar/HSBC

— Share price total return
— Benchmark total return

Rebecca L. Burtonwood

By order of the Board
Rebecca Burtonwood, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
31st May 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the accounts in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.jpmeuropean-smallercompanies.co.uk website, which is maintained by the

Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed in the Directors' Report confirms that, to the best of their knowledge

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law, give a true and fair view of the assets, liabilities, financial position and return or loss of the Company, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.



For and on behalf of the Board
Carolan Dobson
Chairman
31st May 2013

Independent Auditors' Report

To the members of JPMorgan European Smaller Companies Trust plc

We have audited the financial statements of JPMorgan European Smaller Companies Trust plc for the year ended 31st March 2013 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st March 2013 and of its net return and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 22, in relation to going concern,
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

31st May 2013

Notes

- (a) The maintenance and integrity of JPMorgan European Smaller Companies Trust plc website (www.jpmeuropeansmallercompanies.co.uk) is the responsibility of JPMAM, the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31st March

	Notes	Revenue £'000	2013 Capital £'000	Total £'000	Revenue £'000	2012 Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	40,908	40,908	–	(104,011)	(104,011)
Net foreign currency (losses)/gains		–	(1,276)	(1,276)	–	1,382	1,382
Income from investments	3	8,240	–	8,240	10,040	–	10,040
Other interest receivable and similar income	3	241	–	241	175	–	175
Gross return/(loss)		8,481	39,632	48,113	10,215	(102,629)	(92,414)
Management fee	4	(1,008)	(2,353)	(3,361)	(1,301)	(3,035)	(4,336)
Other administrative expenses	5	(570)	–	(570)	(620)	–	(620)
Net return/(loss) on ordinary activities before finance costs and taxation		6,903	37,279	44,182	8,294	(105,664)	(97,370)
Finance costs	6	(197)	(460)	(657)	(360)	(841)	(1,201)
Net return/(loss) on ordinary activities before taxation		6,706	36,818	43,524	7,934	(106,505)	(98,571)
Taxation	7	(572)	–	(572)	(879)	–	(879)
Net return/(loss) on ordinary activities after taxation		6,134	36,818	42,952	7,055	(106,505)	(99,450)
Return/(loss) per share	9	16.47p	98.88p	115.35p	1712p	(258.41)p	(241.29)p

Details of the dividend declared are given in note 8 on page 42

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The Total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 37 to 55 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st March

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st March 2011	10,877	1,312	4,759	457,728	2,752	477,428
Repurchase and cancellation of the Company's own shares	(856)	—	856	(31,523)	—	(31,523)
Net (loss)/return on ordinary activities	—	—	—	(106,505)	7,055	(99,450)
Dividends appropriated in the year	—	—	—	—	(4,156)	(4,156)
At 31st March 2012	10,021	1,312	5,615	319,700	5,651	342,299
Repurchase and cancellation of the Company's own shares	(1,075)	—	1,075	(30,042)	—	(30,042)
Net return on ordinary activities	—	—	—	36,818	6,134	42,952
Dividends appropriated in the year	—	—	—	—	(6,102)	(6,102)
At 31st March 2013	8,946	1,312	6,690	326,476	5,683	349,107

The notes on pages 37 to 55 form an integral part of these accounts

Balance Sheet

at 31st March

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments held at fair value through profit or loss		394,223	359,138
Investment in liquidity fund held at fair value through profit or loss		13,911	15,003
Total investments	10	408,134	374,141
Current assets	11		
Debtors		7,971	15,077
Cash and short term deposits		347	568
		8,318	15,645
Current liabilities	12		
Creditors: amounts falling due within one year		(50,429)	(47,487)
Derivative financial instruments		(3)	–
Net current liabilities		(42,114)	(31,842)
Total assets less current liabilities		366,020	342,299
Creditors: amounts falling due after more than one year	13	(16,913)	–
Net assets		349,107	342,299
Capital and reserves			
Called up share capital	14	8,946	10,021
Share premium	15	1,312	1,312
Capital redemption reserve	15	6,690	5,615
Capital reserves	15	326,476	319,700
Revenue reserve	15	5,683	5,651
Total equity shareholders' funds		349,107	342,299
Net asset value per share	16	975.7p	854.0p

The accounts on pages 33 to 55 were approved and authorised for issue by the Directors on 31st May 2013 and were signed on their behalf by



Carolan Dobson
Director

The notes on pages 37 to 55 form an integral part of these accounts

Company registration number: 2431143

Cash Flow Statement

for the year ended 31st March

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	17	3,033	3,807
Returns on investments and servicing of finance			
Interest paid		(712)	(1,411)
Net cash outflow from returns on investments and servicing of finance		(712)	(1,411)
Taxation			
Overseas tax recovered		107	203
Capital expenditure and financial investment			
Purchases of investments		(963,290)	(2,001,039)
Sales of investments		981,083	2,062,677
Other capital charges		(186)	(253)
Net cash inflow from capital expenditure and financial investment		17,607	61,385
Dividends paid		(6,102)	(4,156)
Net cash inflow before financing		13,933	59,828
Financing			
Net drawdown/(repayment) of loans		17,384	(26,696)
Repurchase and cancellation of the Company's own shares		(30,403)	(31,162)
Net cash outflow from financing		(13,019)	(57,858)
Increase in cash for the year	18	914	1,970

The notes on pages 37 to 55 form an integral part of these accounts

Notes to the Accounts

for the year ended 31st March 2013

1 Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and derivative financial instruments at fair value through profit or loss.

The policies applied in these accounts are consistent with those applied in the preceding year.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value which are quoted bid market prices for investments traded in active markets.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency cash balances and loans, management fee and finance costs allocated to capital and any other capital charges are included in the Income Statement and dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end, including the related foreign exchange gains and losses, are included in the Income Statement and dealt with in capital reserves within 'Investment holding gains and losses'. Unrealised gains and losses on foreign currency contracts or foreign currency loans are included in the Income Statement and dealt with in capital reserves within 'Investment holding gains and losses'.

(d) Income

Dividends receivable are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

Overseas dividends are included gross of any withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Deposit interest receivable is taken to revenue on an accruals basis.

Stocklending income is taken to revenue on a receipts basis.

Notes to the Accounts continued

1 Accounting policies continued

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue column of the Income Statement with the following exceptions:

- With effect from 1st April 2011 the management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 43.

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

With effect from 1st April 2011, finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable debtor amounts.

Derivative financial instruments, including short term forward currency contracts, are valued at fair value, which is the net unrealised gain or loss, and are included in current assets or current liabilities in the balance sheet in accordance with FRS 26 'Financial Instruments: Measurement'.

Bank loans are classified as such and are measured at amortised cost. They are recorded at the proceeds received net of direct issue costs and finance costs are accounted for on an accruals basis using the effective interest method.

(h) Foreign currency

In accordance with FRS 23 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or, in the case of forward currency contracts, at contractual rates. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end, or at the related forward currency contract rate.

Any gain or loss on monetary assets arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature.

(i) Taxation

Current tax is provided at the amount expected to be paid or recovered

Deferred taxation is accounted for in accordance with FRS 19 'Deferred Tax'

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date

Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis

(j) Value Added Tax ('VAT')

Irrecoverable VAT is included in the expense on which it has been suffered. VAT recoverable is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies

(k) Repurchases of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Reconciliation of Movement in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'

(l) Dividends payable

In accordance with FRS 21 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are paid

	2013 £'000	2012 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Gains/(losses) on investments held at fair value through profit or loss based on historical cost	10,177	(40,195)
Amounts recognised as unrealised in the previous year	(13,467)	(85,753)
Losses on sales of investments based on carrying value at previous balance sheet date	(3,290)	(125,948)
Net movement in investment holding gains	44,342	22,231
Other capital charges	(144)	(294)
Total capital gains/(losses) on investments held at fair value through profit or loss	40,908	(104,011)

Notes to the Accounts continued

	2013 £'000	2012 £'000
3. Income		
Income from investments		
Dividends from investments listed overseas	7,752	8,763
Scrip dividends	441	1,077
Dividends from liquidity fund	47	200
	8,240	10,040
Other interest receivable and similar income		
Stock lending fees	227	143
Deposit interest	14	32
	241	175
Total income	8,481	10,215

	Revenue £'000	2013 Capital £'000	Total £'000	Revenue £'000	2012 Capital £'000	Total £'000
4 Management fee						
Management fee ¹	1,008	2,353	3,361	1,301	3,035	4,336

¹Details of the management fee are given in the Directors' Report on page 22

	2013 £'000	2012 £'000
5. Other administrative expenses		
Administration expenses	285	328
Directors' fees ¹	138	133
Savings scheme costs ²	124	137
Auditors' remuneration for audit services ³	23	22
	570	620

¹Full disclosure is given in the Directors' Remuneration Report on page 30

²Paid to JPMAM for the marketing and administration of savings scheme products

³Includes £3,000 (2012: £3,000) irrecoverable VAT

	Revenue £'000	2013 Capital £'000	Total £'000	Revenue £'000	2012 Capital £'000	Total £'000
6 Finance costs						
Interest payable on bank loans and overdrafts	197	460	657	360	841	1,201

7 Taxation

(a) Analysis of tax charge for the year

	2013 £'000	2012 £'000
UK corporation tax at 24% (2012 26%)	–	–
Overseas withholding tax	572	879
Current tax charge for the year	572	879

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2012 higher) than the Company's applicable rate of corporation tax for the year of 24% (2012 26%). The factors affecting the current tax charge for the year are as follows

	Revenue £'000	2013 Capital £'000	Total £'000	Revenue £'000	2012 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	6,706	36,818	43,524	7,934	(106,505)	(98,571)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 24% (2012 26%)	1,609	8,836	10,445	2,063	(27,691)	(25,628)
Effects of						
Non taxable capital (gains)/losses	–	(9,560)	(9,560)	–	26,683	26,683
Non taxable overseas dividends	(1,870)	–	(1,870)	(2,455)	–	(2,455)
Tax attributable to expenses and finance costs charged to capital	(675)	675	–	–	–	–
Income taxed in different periods	(7)	–	(7)	–	–	–
Overseas taxation	572	–	572	879	–	879
Unrelieved expenses and charges	943	–	943	392	1,008	1,400
Expenses not allowable for tax purposes	–	49	49	–	–	–
	572	–	572	879	–	879

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £7,400,000 (2012 £6,767,000) based on a prospective corporation tax rate of 24% (2012 24%). The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

Given the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval, the Company has not provided deferred taxation on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts continued

8 Dividends

(a) Dividends paid and declared

	2013 £'000	2012 £'000
Dividends paid		
2012 final dividend of 11 Op (2011 4 Op) per share	3,952	1,724
Interim dividend of 6 Op (2012 6 Op) per share	2,150	2,432
Total dividends paid in the year	6,102	4,156
Dividend declared		
Dividend proposed of 10 Op (2012 11 Op) per share	3,578	4,409

The dividend declared in respect of the year ended 31st March 2013 is subject to shareholder approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st March 2014.

The dividend declared in respect of the year ended 31st March 2012 amounted to £4,409,000. However, the amount actually paid was £3,952,000 due to shares repurchased and cancelled after the balance sheet date but prior to the dividend record date.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year, shown below. The revenue available for distribution by way of dividend for the year is £6,134,000 (2012 £7,055,000).

	2013 £'000	2012 £'000
Interim dividend of 6 Op (2012 6 Op) per share	2,150	2,432
Final dividend of 10 Op (2012 11 Op) per share	3,578	4,409
	5,728	6,841

9 Return/(loss) per share

The revenue return per share is based on the revenue attributable to the ordinary shares of £6,134,000 (2012 £7,055,000) and on the weighted average number of shares in issue during the year of 37,234,966 (2012 41,215,645) excluding shares held in Treasury.

The capital return per share is based on the capital gain attributable to the ordinary shares of £36,818,000 (2012 £106,505,000 loss) and on the weighted average number of shares in issue during the year of 37,234,966 (2012 41,215,645) excluding shares held in Treasury.

The total return per share is based on the earnings attributable to the ordinary shares of £42,952,000 (2012 £99,450,000 loss) and on the weighted average number of shares in issue during the year of 37,234,966 (2012 41,215,645) excluding shares held in Treasury.

	2013 £'000	2012 £'000
10 Investments		
Investments listed on a recognised stock exchange ¹	408,134	374,141
Opening book cost	358,069	479,463
Opening investment holding gains	16,072	79,594
Opening valuation	374,141	559,057
Movement in the year		
Purchases at cost	966,517	1,992,097
Sales - proceeds	(973,576)	(2,073,296)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(3,290)	(125,948)
Net movement in investment holding gains and losses	44,342	22,231
	408,134	374,141
Closing book cost	361,187	358,069
Closing investment holding gains	46,947	16,072
Total investments held at fair value	408,134	374,141

¹Includes the investment in the JPM Euro Liquidity Fund

Transaction costs on purchases during the year amounted to £1,304,000 (2012 £2,124,000) and on sales during the year amounted to £912,000 (2012 £1,757,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £13,467,000 have been transferred to gains on sales of investments as disclosed in note 15.

	2013 £'000	2012 £'000
11 Current assets		
Debtors		
Securities sold awaiting settlement	6,563	14,070
Dividends and interest receivable	906	634
Overseas tax recoverable	471	333
Other debtors	31	40
	7,971	15,077

The Directors consider that the carrying amount of debtors approximates to their fair value.

Cash and short term deposits

Cash and short term deposits comprises bank balances and cash held by the Company, including short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

Notes to the Accounts continued

	2013 £'000	2012 £'000
12. Current liabilities		
Creditors: amounts falling due within one year		
Bank loan	42,284	41,674
Securities purchased awaiting settlement	7,997	5,211
Repurchases of the Company's own shares awaiting settlement	–	361
Other creditors and accruals	148	241
	50,429	47,487

The bank loan, which is unsecured, comprises a total of Euro 50 million drawn down on the Company's facility with Scotiabank. Further details of the Company's loan facilities are given in note 21(a)(ii) on page 51.

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

	2013 £'000	2012 £'000
Derivative instruments at fair value through profit or loss		
Forward foreign currency contracts	3	–

	2013 £'000	2012 £'000
13 Creditors: amounts falling due after more than one year		
Bank loan	16,913	–

	2013 £'000	2012 £'000
14 Called up share capital		
Issued and fully paid		
Opening balance of 40,083,803 ordinary shares of 25p each (2012: 43,508,739 excluding shares held in Treasury)	10,021	10,877
Repurchase of 4,301,880 (2012: 3,424,936) shares for cancellation	(1,075)	(856)
Closing balance, represented by 35,781,923 (2012: 40,083,803) ordinary shares of 25p each	8,946	10,021

During the year, the Company made market purchases of 4,301,880 of its own shares, nominal value £1,075,470 for cancellation, representing 10.73% of the issued share capital at the beginning of the year. The consideration paid for these shares amounted to £30,042,000. The reason for these purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share.

During the prior year, nil shares held in Treasury were cancelled. No shares were held in Treasury in the current year.

Further details of transactions in the Company's shares are given in the Directors' Report on page 23.

	Share premium £'000	Capital redemption reserve £'000	Capital reserves		Revenue reserve £'000
			Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	
15 Reserves					
Opening balance	1,312	5,615	303,534	16,166	5,651
Net foreign currency gains on cash and short term deposits	—	—	184	—	—
Net foreign currency losses on time deposits	—	—	(1,319)	—	—
Unrealised losses on foreign currency contracts	—	—	—	(3)	—
Losses on sales of investments based on the carrying value at the previous balance sheet date	—	—	(3,290)	—	—
Net movement in investment holding gains and losses	—	—	—	44,342	—
Transfer on disposal of investments	—	—	13,467	(13,467)	—
Repurchase and cancellation of the Company's own shares	—	1,075	(30,042)	—	—
Unrealised foreign currency gains on loans	—	—	—	(138)	—
Management fee and finance costs allocated to capital	—	—	(2,814)	—	—
Other capital charges	—	—	(144)	—	—
Dividends appropriated in the year	—	—	—	—	(6,102)
Retained revenue for the year	—	—	—	—	6,134
Closing balance	1,312	6,690	279,576	46,900	5,683

16 Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £349,107,000 (2012 £342,299,000) and on the 35,781,923 (2012 40,083,803) shares in issue at the year end

	2013 £'000	2012 £'000
17 Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total return/(loss) on ordinary activities before finance costs and taxation	44,182	(97,370)
Less capital (return)/loss before finance costs and taxation	(37,279)	105,664
Scrip dividends received as income	(441)	(1,077)
(Increase)/decrease in dividends and interest receivable	(272)	853
Decrease in other debtors	9	18
Increase in accrued expenses	3	1
Overseas withholding tax	(816)	(1,247)
Management fee allocated to capital	(2,353)	(3,035)
Net cash inflow from operating activities	3,033	3,807

Notes to the Accounts continued

	2012 £'000	Cash flow £'000	Exchange movements £'000	2013 £'000
18. Analysis of changes in net debt				
Cash and short term deposits and bank overdrafts	568	914	(1,135)	347
Bank loans falling due within one year	(41,674)	–	(610)	(42,284)
Bank loans falling due in more than one year but not more than five years	–	(17,384)	471	(16,913)
Net debt	(41,106)	(16,470)	(1,274)	(58,850)

19. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 22. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £3,361,000 (2012: £4,336,000) of which £nil (2012: £nil) was outstanding at the year end.

During the year £124,000 (2012: £116,000), excluding VAT, was payable to JPMAM for the marketing and administration of savings scheme products, of which £9,000 (2012: £nil) was outstanding at the year end.

Included in administration expenses in note 5 on page 40 are safe custody fees amounting to £62,000 (2012: £85,000) excluding VAT of which £nil (2012: £16,000) was outstanding at the year end. These fees were paid to third party custodians by JPMAM on behalf of the Company and reimbursed to JPMAM.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £80,000 (2012: £230,000) of which £nil (2012: £nil) was outstanding at the year end.

During the year the Company made purchases and sales of units in the JPMorgan Euro Liquidity Fund, which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £13.9 million (2012: £15.0 million) or 3.4% (2012: 4.0%) of the Company's investments. Dividends amounting to £46,000 (2012: £200,000) were receivable from this investment during the year of which £nil (2012: £2,000) were outstanding at the year end.

Stock lending fees amounting to £227,000 (2012: £143,000) were receivable by the Company during the year. JPMAM commissions in respect of such transactions amounted to £48,000 (2012: £30,000).

Handling charges on dealing transactions amounting to £144,000 (2012: £294,000) were payable to JPMorgan Chase during the year of which £42,000 (2012: £84,000) was outstanding at the year end.

At the year end, a bank balance of £347,000 (2012: £568,000) was held with JPMorgan Chase. A net amount of interest of £14,000 (2012: £32,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2012: £nil) was outstanding at the year end.

20. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio and derivative financial instruments. The Company's liabilities are not held at fair value.

The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 - valued using quoted prices in active markets

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 37.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st March

	2013			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments held at fair value through profit or loss				
Equity investments	394,223	—	—	394,223
Liquidity funds	13,911	—	—	13,911
Derivative financial instruments: Forward foreign currency contracts	—	3	—	3
Total	408,134	3	—	408,137

	2012			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments held at fair value through profit or loss				
Equity investments	359,138	—	—	359,138
Liquidity funds	15,003	—	—	15,003
Total	374,141	—	—	374,141

There have been no transfers between Levels 1, 2 or 3 during the year (2012: nil)

Notes to the Accounts continued

21. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long term in order to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management strategy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- investments in equity shares of European companies and a Euro liquidity fund which are both held in accordance with the Company's investment objective,
- short term debtors, creditors and cash arising directly from its operations,
- short term forward currency contracts for the purpose of settling short term liabilities, and
- loan facilities, the purpose of which are to finance the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in parts (i) to (iii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Currency risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling which is the Company's functional currency and the currency in which it reports. As a result, movements in exchange rates may affect the sterling value of those items.

Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least five occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. Foreign currency borrowing may be used to limit the Company's exposure to anticipated changes in exchange rates which might otherwise adversely affect the sterling value of the portfolio of investments. This borrowing is limited to currencies and amounts commensurate with the asset exposure to those currencies. Income denominated in foreign currencies is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31st March are shown overleaf. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2013					Total £'000
	Euro £'000	Swiss francs £'000	Danish krone £'000	Swedish krona £'000	Norwegian krone £'000	
Investments held at fair value through profit or loss that are monetary items	13,911	–	–	–	–	13,911
Current assets	6,226	1,688	–	175	147	8,236
Creditors	(67,072)	–	–	(124)	–	(67,196)
Foreign currency exposure on net monetary items	(46,935)	1,688	–	51	147	(45,049)
Investments held at fair value through profit or loss that are equities	270,145	49,762	33,811	31,271	9,234	394,223
Total net foreign currency exposure	223,210	51,450	33,811	31,322	9,381	349,174

	2012					Total £'000
	Euro £'000	Swiss francs £'000	Danish krone £'000	Swedish krona £'000	Norwegian krone £'000	
Investments held at fair value through profit or loss that are monetary items	15,003	–	–	–	–	15,003
Current assets	10,357	5,092	12	–	95	15,556
Creditors	(44,759)	(835)	(579)	(633)	(103)	(46,909)
Foreign currency exposure on net monetary items	(19,399)	4,257	(567)	(633)	(8)	(16,350)
Investments held at fair value through profit or loss that are equities	245,519	44,291	26,423	23,001	19,904	359,138
Total net foreign currency exposure	226,120	48,548	25,856	22,368	19,896	342,788

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

Notes to the Accounts continued

21. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(i) Currency risk continued

Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2012: 10%) appreciation or depreciation in sterling against the Euro, Swiss francs, Danish krone, Swedish krona and Norwegian krone to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had strengthened by 10% this would have had the following effect:

	2013 £'000	2012 £'000
Income statement return after taxation		
Revenue return	776	876
Capital return	(4,505)	(1,635)
Total return after taxation for the year	(3,729)	(759)
Net assets	(3,729)	(759)

Conversely, if sterling had weakened by 10% this would have had the following effect:

	2013 £'000	2012 £'000
Income statement return after taxation		
Revenue return	(776)	(876)
Capital return	4,505	1,635
Total return after taxation for the year	3,729	759
Net assets	3,729	759

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the whole year.

(ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings.

Management of interest rate risk

The Company does not normally hold significant cash balances. Short term borrowings are used when required. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facilities. However, amounts drawn down on these facilities are for short term periods and therefore there is limited exposure to interest rate risk.

Derivatives are not used to hedge against the exposure to interest rate risk.

Interest rate exposure

The Company has no financial assets or liabilities carrying fixed rates of interest. The exposure of financial assets and liabilities to floating interest rates using the year end figures, giving cash flow interest rate risk when rates are re-set, is shown below.

	2013 £'000	2012 £'000
Amounts exposed to floating interest rates.		
Cash and short term deposits	347	568
JPM Euro Liquidity Fund	13,911	15,003
Creditors' amounts falling due after more than one year		
Bank loans	(16,913)	–
Creditors' amounts falling due within one year		
Bank loans	(42,284)	(41,674)
Total exposure	(44,939)	(26,103)

Interest receivable on cash balances or payable on overdrafts is at a margin below or above LIBOR respectively.

The target interest earned on the JPM Euro Liquidity Fund is the 7 day Euro London Interbank Bid Rate.

In January 2012, the Company arranged a Euro 50 million 1 year Floating Rate Loan Facility with Scotiabank. Under the terms of the amended agreement, the Company was able to draw down up to Euro 50 million, or its equivalent in another currency, at an interest rate of LIBOR as offered in the market for the relevant currency and loan period, plus a margin of 0.9% per annum plus the Mandatory Cost Rate, which is the lender's cost of complying with the regulatory requirements of the Bank of England or European Central Bank during the term of the advance. This facility was unsecured but was subject to restrictions which are customary for a credit facility of this nature. This facility was renewed in January 2013 for a further year on the same terms with the exception of the margin which was negotiated at a reduced level of 0.875%. At the year end, the Company had drawn down Euro 50 million on this facility at a weighted average interest rate of 1.624%.

In January 2012, the Company also arranged a Euro 50 million 3 year Floating Rate Loan Facility with Scotiabank. Under the terms of this agreement, the Company may draw down up to Euro 50 million, or its equivalent in another currency, at an interest rate of LIBOR as offered in the market for the relevant currency and loan period, plus a margin of 1.5% per annum plus the Mandatory Cost Rate. This facility is unsecured but is subject to the customary credit restrictions. The Company had drawn down on this facility at the year end.

Notes to the Accounts continued

21. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(ii) Interest rate risk continued

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2012: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2013		2012	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Income statement - return after taxation				
Revenue return	(35)	35	31	(31)
Capital return	(414)	414	(292)	292
Total return after taxation for the year	(449)	449	(261)	261
Net assets	(449)	449	(261)	261

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to the fluctuation in the level of cash balances, investment in the JPM Euro Liquidity Fund, and amounts drawn down on the Company's loan facilities.

(iii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of equity investments.

Management of market price risk

The Board meets on at least five occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Market price risk exposure

The Company's exposure to changes in market prices at 31st March comprises its holdings in equity investments and preference shares as follows:

	2013 £'000	2012 £'000
Equity investments and preference shares held at fair value through profit or loss	394,223	359,138

The above data is broadly representative of the exposure to market price risk during the year.

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 12 to 16. This shows that all of the investments' value is in European companies and there is no concentration of exposure to any one country. It should also be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2012: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2013		2012	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(154)	154	(140)	140
Capital return	39,064	(39,064)	35,587	(35,587)
Total return after taxation for the year and net assets	38,910	(38,910)	35,447	(35,447)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, the liquidity of which in normal markets is frequently tested by the Investment Managers and which can be sold to meet funding requirements if necessary. All of the Company's assets are considered to be realisable within one month. Short term flexibility is achieved through the use of overdraft facilities. The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements. Details of the current loan facilities are given in part (a)(iii) to this note on page 51.

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

	2013				2012			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors' amounts falling due within one year								
Bank loans, including interest	173	42,725	17,136	60,034	120	41,674	–	41,794
Securities purchased awaiting settlement	7,997	–	–	7,997	5,211	–	–	5,211
Repurchase of the Company's own shares								
awaiting settlement	–	–	–	–	361	–	–	361
Other creditors and accruals	136	–	–	136	174	–	–	174
Derivative financial instruments: Forward foreign currency contracts	3	–	–	3	–	–	–	–
	8,309	42,725	17,136	68,170	5,866	41,674	–	47,540

Notes to the Accounts continued

21 Financial instruments' exposure to risk and risk management policies continued

(c) Credit risk

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in loss to the Company

Management of credit risk

Portfolio dealing

The Company invests in markets that operate Delivery Versus Payment ('DVP') settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase were to cease trading.

Credit risk exposure

The amounts shown in the balance sheet under investment in liquidity fund, debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends. The liquidity fund has an AAA (2012 AAA) credit rating.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2012 A1/P1) from Standard & Poor's and Moody's respectively.

The aggregate value of securities on loan at 31st March 2013 amounted to £4.1 million and the maximum value of stock on loan during the year amounted to £38.6 million. Collateral is obtained by JPMorgan Asset Management and is called in on a daily basis to a value of 102% of the value of the securities on loan if that collateral is denominated in the same currency as the securities on loan and 105% if it is denominated in a different currency.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value.

22 Capital management policies and procedures

The Company's debt and capital comprises the following

	2013 £'000	2012 £'000
Debt		
Bank loans	59,196	41,674
Less: Investments in liquidity funds	(13,911)	(15,003)
Less: Cash and short term deposits	(347)	(568)
Total net debt for gearing purposes	44,938	26,103
Equity		
Equity share capital	8,946	10,021
Reserves	340,161	332,278
Total equity for gearing purposes	349,107	342,299

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt

The Board's policy is to limit gearing within the range of 20% net cash to 20% geared. Gearing for this purpose is defined as the excess amount above shareholders' funds of total assets less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position. At 31st March 2013, gearing calculated on this basis was 12.9% (2012: 7.6%).

	2013 £'000	2012 £'000
Investments excluding liquidity fund holdings	394,223	359,138
Current assets excluding cash	7,971	15,077
Current liabilities excluding bank loans	(8,148)	(5,813)
Total assets	394,046	368,402
Net assets	349,107	342,299
Gearing	12.9%	7.6%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market,
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium,
- the opportunity for issues of new shares, including issues from Treasury, and
- the level of dividend distributions in excess of that which is required to be distributed

Shareholder Analysis

at 31st March 2013

	Number of shares	% Holding
Pension Funds	9,160,609	25.6
Insurance Companies	2,440,660	6.8
Mutual Funds	4,665,425	13.0
JPMorgan Elect plc	481,122	1.3
Other Institutions	4,879,743	13.8
Total Institutions	21,627,559	60.5
Retail investors holding shares directly or through nominee accounts ¹	9,871,588	27.5
Individuals in the Investment Trust Investment Account/ISA/SIPP ²	4,282,776	12.0
Total Retail Holdings	14,154,364	39.5
Total Shares in issue	35,781,923	100.0

¹Includes shares below threshold of 10,000 shares

²Savings products managed by JPMorgan

Source: Richard Davies Investor Relations

Nominee accounts have been allocated to their appropriate category

Notice of Annual General Meeting

Notice is hereby given that the twenty-fourth Annual General Meeting of JPMorgan European Smaller Companies Trust plc will be held at Holborn Bars, 138-142 Holborn, London EC1N 2NQ on Tuesday, 16th July 2013 at 12 noon for the following purposes

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2013
- 2 To approve the Directors' Remuneration Report for the year ended 31st March 2013
- 3 To declare a dividend of 10.0 pence per share
- 4 To reappoint Anthony Davidson a Director of the Company
- 5 To reappoint Carolan Dobson a Director of the Company
- 6 To reappoint Ashok Gupta a Director of the Company
- 7 To reappoint Federico Marescotti a Director of the Company
- 8 To reappoint Stephen White a Director of the Company
- 9 To reappoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration

Special Business

To consider the following resolutions

Authority to allot new shares – Ordinary Resolution

- 10 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to an aggregate nominal amount of £445,585, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2014 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and

grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired

Authority to disapply pre-emption rights on allotment of relevant securities – Special Resolution

- 11 THAT subject to the passing of Resolution 10 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 10 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £445,585, representing approximately 5% of the issued share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 10 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired

Authority to repurchase the Company's shares – Special Resolution

- 12 THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued ordinary shares of 25 pence each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 5,343,473 or, if less, that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution,
- (ii) the minimum price which may be paid for an ordinary share shall be 25 pence,
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of
 - (a) 105% of the average of the middle market quotations for an ordinary share taken from and

Notice of Annual General Meeting continued

calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased, or (b) the price of the last independent trade or (c) the highest current independent bid,

- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors),
- (v) the authority hereby conferred shall expire on 15th January 2015 unless the authority is renewed at the Company's Annual General Meeting in 2014 or at any other general meeting prior to such time, and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract

Rebecca L. Burtonwood

By order of the Board
Rebecca Burtonwood, for and on behalf of
JPMorgan Asset Management (UK) Limited
Company Secretary
7th June 2013

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form

- 1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/her discretion both as to how to vote and whether he/she abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will be terminated automatically.
- 3 Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 12 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
- 4 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
- 5 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period, then to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting at the time specified in that notice, changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.
- 6 Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

- 7 A corporation which is a shareholder may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
- 8 Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM, or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
- 9 Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
- 10 Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company (i) to give to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting, and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business, unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
- 11 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy cannot be exercised by a Nominated Person; they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- 12 In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmeuropeansmallercompanies.co.uk.
- 13 The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
- 14 You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
- 15 As an alternative to completing a hard copy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
- 16 As at 29th May 2013 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 35,646,923 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 35,646,923.

Electronic appointment – CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

Glossary of Terms and Definitions

Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend

Return on Net Assets

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the return on net assets

Benchmark Return

Total return on the benchmark on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark

Benchmark Index

The Company's investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the HSBC Smaller European Companies (ex UK) Total Return Index. At 31st March 2013, the index consisted of 1,000 companies with a market capitalisation of between £74 million and £2.6 billion across 15 countries

Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total assets less cash/cash equivalents, expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position

Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs,

expressed as a percentage of the average of the daily net assets during the year. The method of calculating the ongoing charges has been changed. In previous years, the total expense ratio ('TER') was calculated, which represented the Company's management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average month end net assets during the year

Share Price Discount/Premium to Net Asset Value ('NAV') Per Share

If the share price of an investment trust is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust's shares to trade at a discount than at a premium

Performance Attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark

Performance Attribution Definitions

Stock Selection/Asset Allocation

Measures the effect of investing in securities/sectors to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark

Tactical Gearing/Net Cash

Measures the impact on returns of borrowings or cash balances on the Company's relative performance

Currency Effect

Measures the effect of currency exposure differences between the Company's portfolio and its benchmark

Management Fees/Other Expenses

The payment of fees and expenses reduces the level of total assets and therefore has a negative effect on relative performance

Share Buybacks

Measures the positive effect on relative performance of repurchasing the Company's shares for cancellation, or repurchases into Treasury, at a discount to their NAV per share

Warning to shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FCA before getting involved by visiting www.fca.org.uk/consumers
- Report the matter to the FCA by calling **0800 111 6768**
- If the calls persist, hang up

More detailed information on this can be found on the Money Advice Service website www.moneyadviceservice.org.uk

Information about the Company

Financial Calendar

Financial year end	31st March
Final results announced	May/June
Half year end	September
Half year results announced	November
Interim Management Statements announced	July/January
Annual General Meeting	16th July 2013

History

On 24th April 1990, the Company acquired the undertaking and assets of Fleming European Fledgeling Fund Limited (the 'Fund') in exchange for the issue of its shares and warrants. The Fund was an open-ended, unquoted investment company based in Jersey and formed in June 1987 with the same objectives and investment policies as the Company. The Company adopted its present name in July 2010.

Company Numbers

Company registration number 2431143
London Stock Exchange number 0341969
ISIN GB0003419693
Bloomberg code JESC LN

Market Information

The Company's net asset value ('NAV') per share is published daily, via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman, The Independent and on the Company's website at www.jpmeuropeansmallercompanies.co.uk, where the share price is updated every fifteen minutes during trading hours.

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J P Morgan Investment Account, J P Morgan ISA and J P Morgan SIPP. These products are all available on the online wealth manager service J P Morgan WealthManager+ available at www.jpmorganwealthmanagerplus.co.uk.

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone 020 7742 4000
For company secretarial issues and administrative matters please contact Rebecca Burtonwood

Custodian

JPMorgan Chase Bank, N A
25 Bank Street
Canary Wharf
London E14 5JP

Registrars

Equiniti Limited
Reference 1083
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number 0871 384 2325

Calls to this number cost 8p per minute plus network extras. Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1083.

Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Brokers

Cenkos Securities plc
678 Tokenhouse Yard
London EC2R 7AS

Savings Product Administrators

For queries on the J P Morgan Investment Account, J P Morgan ISA and J P Morgan SIPP, see contact details on the back cover of this report.

A member of the AIC

J P. Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmeuropeansmallercompanies.co.uk